

AR25

Gamble-Skogmo, Inc.
Annual Report
1974



Directors and Officers

DIRECTORS

Russell M. Bennett, *Attorney and Partner, Gray, Plant, Mooty & Anderson*

B. Fred Davidson, *Retired Officer*

*Walter H. Davies, Jr., *Vice Chairman of the Board and Chief Financial Officer*

*Louis E. Dolan, *Vice Chairman of the Board and General Counsel*

*Bertin C. Gamble, *Chairman of the Board and Chief Executive Officer*

*Arthur G. Johnson, *Executive Vice President*

*Forest R. Lombaer, *Senior Vice President for Personnel*

*Wayne E. Matschullat, *President*

Burr L. Robbins, *Consultant and former President, General Outdoor Advertising Company, Inc.*

*James F. Tracy, *Senior Vice President for Buying*

*Edwin O. Wack, *Senior Vice President*

Wheelock Whitney, *Instructor, University of Minnesota; and Chairman, Johnson Institute for Chemical Dependency*

Carle R. Wunderlich, *Vice President; President, Aldens, Inc.*

Bernard B. Zients, *Consultant and former President, New York department store division of Gimbel Brothers, Inc.*

OFFICERS

Bertin C. Gamble, *Chairman of the Board and Chief Executive Officer*

Wayne E. Matschullat, *President*

Walter H. Davies, Jr., *Vice Chairman and Chief Financial Officer*

Louis E. Dolan, *Vice Chairman and General Counsel*

OFFICE
OF
PRESIDENT

Arthur G. Johnson, *Executive Vice President*

Forest R. Lombaer, *Senior Vice President for Personnel*

Lawrence W. Rixe, *Senior Vice President and Controller*

James F. Tracy, *Senior Vice President for Buying*

Edwin O. Wack, *Senior Vice President*

Paul E. Grossman, *Vice President; President, Tempo-Buckeye Stores Division*

Robert W. Hill, *Vice President for Procurement*

Roy W. Johnson, *Vice President for Buying*

Lawrence Kanter, *Vice President*

Frank D. Kollmer, *Vice President for Credit*

Frank T. Matthews, *Vice President for Store Design, Construction and Display*

Donald A. Metke, *Vice President for Retail Merchandising*

Herbert D. Nelson, *Vice President; President, Rasco Stores Division*

Charles E. Trussell, *Vice President and Assistant to the President*

Carle R. Wunderlich, *Vice President; President, Aldens, Inc.*

Charles H. Gauck, *Secretary and Assistant General Counsel*

Norman M. Steck, *Treasurer*

Stanley T. Edwards, *Assistant Vice President*

Richard L. Parry, *Assistant Vice President*

Paul P. Senio, *Assistant Vice President*

James C. Bowie, *Assistant Controller*

Richard W. Nelson, *Assistant Treasurer*

William E. Oppenheimer, *Assistant Secretary*

ANNUAL MEETING

The annual meeting of stockholders will be held at the home office of the company on Friday, June 27, 1975. A proxy statement, including a request for proxies, will be mail to stockholders approximately three weeks prior to the meeting.

TRANSFER AGENTS

First National City Bank
111 Wall Street
New York, New York 10015

The First National Bank of Chicago
One First National Plaza
Chicago, Illinois 60670

REGISTRARS

The Chase Manhattan Bank
1 Chase Manhattan Plaza
New York, New York 10015

Continental Illinois National Bank
and Trust Company
231 South La Salle Street
Chicago, Illinois 60690

FORM 10-K

A copy of the company's annual report to the Securities and Exchange Commission on Form 10-K for its most recent fiscal year may be obtained without charge by writing to:

Charles H. Gauck, *Secretary*
Gamble-Skogmo, Inc.
5100 Gamble Drive
Minneapolis, Minnesota 55416

*member of Executive Committee

Highlights of The Year

(All dollars in thousands except amounts per share)

	1974	1973
	Fifty-two weeks ended January 25, 1975	Fifty-two weeks ended January 26, 1974
Net sales	\$1,487,455	\$1,394,883
Earnings before income taxes	48,278	48,786
Net earnings	24,986	24,929
Earnings per common share:		
Primary	5.52	5.32
Fully diluted	4.71	4.48
Dividends per share of common stock	1.40	1.35

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On March 11, 1975, the company celebrated the completion of fifty years in retailing.

We are proud to dedicate this year's Annual Report to our Founder, Chairman and Chief Executive Officer, Bertin C. Gamble.

TO OUR STOCKHOLDERS

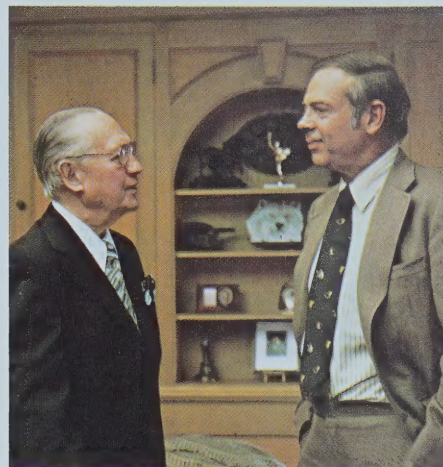
For the seventh successive year, the company is pleased to report the achievement of record sales and earnings. Earnings per share on a fully diluted basis were \$4.71, up 5.1 percent from the \$4.48 per share reported for the previous year. Primary earnings per share for the 1974 fiscal year were \$5.52 compared to \$5.32 for the 1973 fiscal period, up 3.8 percent.

Sales for the year were up 6.6 percent to \$1,487,455,000 compared with \$1,394,883,000 for the previous year. While inflationary factors obviously influenced sales levels in all retail businesses, we take considerable encouragement from our own record in that overall sales increases were achieved with fewer retail units in operation reflecting our continuing emphasis upon improving and upgrading our existing stores.

As we indicated in last year's letter, it was anticipated that 1974 would develop a continuing series of challenges to the people in our operating divisions. These challenges did indeed materialize and our confidence that the tests would be met and dealt with by our people proved to be well founded.

We now have trained professional management at corporate headquarters and all profit center levels. Throughout the company we have young, skilled executives trained in such key activities as buying, merchandising, store design and display, advertising, sales promotion and computer applications.

The business environment in which retailers generally operated last year was not favorable. We were fortunate to have been positioned to benefit from the more favorable economic conditions that prevailed in the predominantly rural areas that we serve in the Upper Midwest and in Western Canada. Our record of achievement for the year compared very favorably with the leaders in the industry and is particularly noteworthy in light of the fact that we and all retailers were faced with the highest interest rates in the history of the industry.



Top (l to r): The Office of President: Walter H. Davies, Jr., Vice Chairman of the Board and Chief Financial Officer; Louis E. Dolan, Vice Chairman of the Board and General Counsel; and Wayne E. Matschullat, President.

Middle (l to r): Directors James F. Tracy, Bernard B. Zients and Arthur G. Johnson discuss Mark 50 merchandise.

Bottom (l to r): Bertin C. Gamble, Chairman and Chief Executive Officer; and Wheelock Whitney, newly-elected Director.



Top (l to r): Directors Burr L. Robbins and Carle R. Wunderlich are welcomed from Chicago at corporate headquarters by fellow Director Edwin O. Wack.

Bottom (l to r): Directors Forest R. Lombaer, B. Fred Davidson and Russell M. Bennett examine a picture of one of the new Tempo prototype merchandise displays.

Realistically, we cannot look for any sudden turnaround in the general economic conditions, and our planning for 1975 was done with this in mind. We know that the first half will be very demanding. Most retailers look for some improvement in the last half of 1975.

We continue to place strong emphasis on building and strengthening our buying and merchandising efforts, and in adjusting our merchandise assortments and distribution techniques to the selective demands of our customers.

At a special meeting in December, 1974, the stockholders authorized an amendment to our Thrift & Profit Sharing Plan which will enable the Trustee under that plan to borrow money for the purpose of acquiring common stock of the company. Management believed that this step was desirable to enable acquisition of the company's stock at very favorable prices in the open market for future allocation to the accounts of participating employees.

The Board has also approved for stockholder ratification at the Annual Meeting in June, an executive loan plan for a limited number of key executives to encourage investment in the company by our top people.

Throughout the year, we will be in various ways celebrating the 50th Anniversary of the company and the efforts of all of our people will be devoted to making this anniversary year another record year.

BERTIN C. GAMBLE
*Chairman of the Board
and Chief Executive Officer*

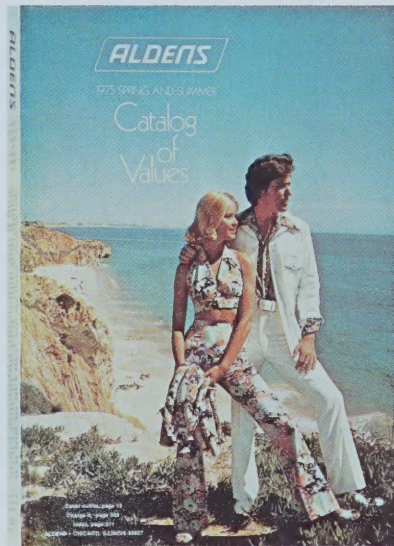
WAYNE E. MATSCHULLAT
President

MERCHANDISING OPERATIONS

Most of our merchandising divisions produced splendid results during the past fiscal year. Canadian operations achieved record sales and earnings, enhanced by the buoyant Canadian economy which was particularly strong in the rural farming communities of Western Canada where many of our Macleods stores operate. The greatest proportion of our Canadian expansion was accomplished in the Macleods Division which opened four new corporate-owned outlets, completely re-modeled and expanded six existing stores and added six new franchised dealer stores. The hardlines chain also acquired virtually sole ownership of Wood Alexander Limited, a wholesale hardware operation in Ontario in which Macleods had previously owned a 49 percent interest. The 215,000 square-foot distribution center in Edmonton, Alberta, was completed and is now in full operation as an important part of the Macleods operation in Western Canada.

Plans for 1975 include the upgrading of several existing retail units, the opening of new corporate-owned stores on a selective

basis, and continuing aggressive efforts to expand franchise operations under both the Macleods and Stedmans auspices. The Stedmans Division enjoyed much improved results and it is felt that further improvement will be achieved in the immediate future on the basis of programs recently adopted and in process of implementation under its strong new management team.



Bertin C. Gamble cuts the ribbon to open officially the 50th Anniversary Museum of Corporate History. Assisting are Wayne E. Matschullat, President (on right), and Arthur G. Johnson, Executive Vice President and Chairman of the 50th Anniversary Committee.

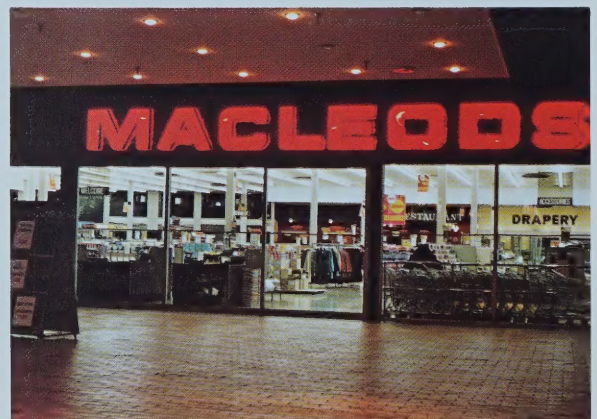
The mass merchandising division developed a completely new concept in an existing store in Faribault, Minnesota, early in 1974. Favorable consumer reaction measured in terms of increased sales and earnings prompted the immediate adoption of the concept in the expansion and remodeling of the Tempo stores in Traverse City, Michigan and Columbus, Nebraska. The division was able to complete remodeling of a total of seven Tempo units before the fall selling season, and five more units were remodeled early in 1975. The results are extremely encouraging. The prototype unit presents a completely new merchandising format with more emphasis on nationally recognized brands. The merchandise presentation has been designed to conform to consumers' usage rather than strict adherence to product classification. The store layouts emphasize boutique looks and have permitted the addition of new departments and the expansion of merchandise categories. New dramatic color concepts and in-store signing have played prominent roles in the overall upgrading of the store image.



When the Traverse City, Michigan Tempo mass merchandising outlet recently underwent a major remodeling, many of the departments such as this housewares department acquired a boutique look.

We consider the marked improvement in earnings of our mass merchandising division to be particularly noteworthy in view of the recent record in the discount industry.

Our catalog sales subsidiary reported reduced earnings reflecting the sharp increase in all elements of operating costs, including catalog paper stock, postage, printing and the high interest costs involved in financing the receivables related to this operation. However, record sales were achieved in large part because of timely recognition of the need to promote merchandise of exceptional value. Many of these items were supplied to Aldens as a part of its specification buying program which is rapidly being expanded.



Two recent Canadian openings are this Stedmans variety store at Perth, Ontario and this Macleods hardlines store at Nanaimo, British Columbia.

Our hardlines division in the United States had another very good year. This can be attributed, in part, to the fact that the economy remained relatively strong in the predominantly rural, farming communities in which most of the Gamble stores are situated.

Two years ago the division introduced a new merchandising format for its stores including a program to upgrade and modernize store design to a "Gambles Home Products Center" identification and concept.

The remodeling program includes a completely revised merchandise mix, with emphasis on "do-it-yourself" items, new departmentalization, new decor, new packaging and new in-store signing and display.

To date, 86 new Home Products Centers have opened and 102 existing stores have been remodeled in compliance with the new image.

The second phase of the division's modern-

ization program is the introduction of the Gambles Home Improvement Center which adds a new department including lumber, paneling, supplies and tools geared to the rapidly expanding market of home remodeling by consumer craftsmen. The Home Improvement Center concept made its debut in Billings, Montana, at midyear, and two additional improvement centers, one of them being franchised, have opened since that date.

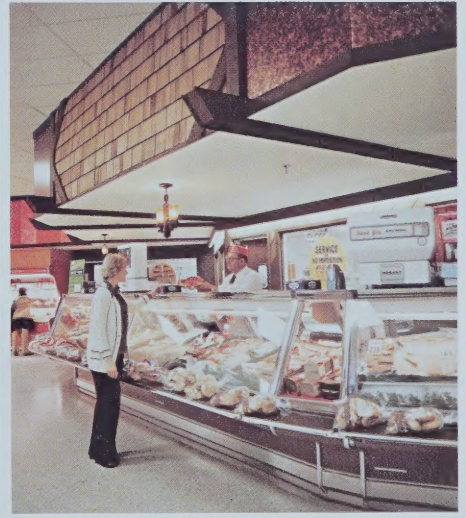
While our food and drug sector reported an increase in sales for the year just ended, the escalating cost of doing business resulted in decreased earnings for the combined food and drug operation.

However, the overall performance of this group was greatly enhanced by a substantial improvement in both sales and earnings in the drug chain, and in the franchised segments of both food and drug operations.

Left: The recently constructed distribution center at Egandale in suburban St. Paul, supplies Red Owl and Snyder's corporate and franchised stores and all Tempo stores with health and beauty aids and general merchandise.

Middle: The Snyder's drug chain opened this franchised drug store in St. Cloud, Minnesota, fifty years after the company's first retail outlet opened in that city on March 11, 1925.

Right: Red Owl recently opened this 35,000 square-foot "super store" at Burnsville, in suburban Minneapolis.



New senior management that directed the division during the last quarter of the year has implemented a number of aggressive merchandising innovations, particularly the promotion of non-food items, that are expected to produce increased sales and improved profit margins.

A 35,000 square-foot, corporate-owned "super store" was opened during the year in the suburban Twin Cities, the chain's major metropolitan market, and a number of other corporate-owned outlets were remodeled and upgraded. Five new franchised food stores were opened in areas not previously served; seven replacement outlets were opened and four units were remodeled and expanded.

Construction is underway on new corporate stores that will open this year in Fargo, North Dakota and Iron Mountain, Michigan. These

are two of the four outmoded corporate outlets that are scheduled for replacement during the year. Three others will undergo major remodeling. Aggressive expansion of franchised outlets is planned to continue in 1975.

An integral part of the store upgrading process is the installation of the new electronic registers announced in last year's Report. Ten retail units have been equipped with these registers, and 15 additional stores are scheduled to receive the equipment this year.

Early in the year, "Informa-Labels," in compliance with the food industry's new uniform retail meat identity standards, were introduced in all Twin City Red Owl stores. The Informa-Label appears on all processed beef packages next to the regular label and contains preparation instructions, a refrigerator-freezer storage chart and U.S.D.A. grading information. Red Owl was one of the first food chains in the nation to use information labeling of this type, which, along with

The prototype of the Gamble Stores Division's new Home Improvement Center concept is this recently opened outlet at Billings, Montana.



Red Owl's new see-through packaged meat trays, are important assets to the value and quality-conscious consumer.

Nine new franchised Snyder's drug stores opened in 1974, including the first franchised outlet in South Dakota. The drug chain plans to open eight to ten new franchised units during the current year, as well as a corporate replacement store in Minneapolis.

Our department store divisions enjoyed a good year with increases in both sales and earnings. Three new McDonalds stores are scheduled to open this year in enclosed mall suburban shopping centers. In two of these instances, the outlets will replace outmoded

units in downtown locations. The third store, located in Greeley, Colorado, will represent a broadening of the division's retail base in the greater metropolitan Denver area.

The Paris Co. plans to open a second branch store in Salt Lake City during the current year, and will remodel the main store in the downtown area of the city.

Woman's World Shops, which were acquired in 1973, opened eight new outlets during the year, thus bringing its total number of

The new St. Paul Convention Center was the site of the Gamble Stores Division's June, 1974, Merchandise Market.



specialty shops to 24. This California-based division plans to open several additional stores during the current year.

The Skogmo Stores Division experienced increases in both sales and earnings and opened 14 new franchised softlines dealer stores during the year.

It is anticipated that more softlines specification orders will be placed and that Mode O'Day will participate in this program to the extent we will be able to keep that division's five apparel factories operating at full capacity. This additional volume will be one of the elements that management feels will contribute to the continuing improvement of Mode O'Day's performance.

Aggressive steps are under way to build sales and profits in our fabric division. More emphasis will be placed upon the development of higher sales per unit and we will further curtail our investment in warehouse inventories.

Further development of the corporate specification buying program, as announced during the year, will see an emphasis on quality control and strengthened relationships with major sources that can offer us research and development service.

FINANCIAL SERVICES

Gambles Insurance Group completed another year of successful operation in 1974, achieving substantial expansion of its marketing base. It is anticipated that in 1975, the Insurance Group will develop the majority of its revenue from sources unaffiliated with Gambles.

Gamble Alden Life Insurance Company (GALIC) opened five new regional sales offices in Cincinnati, Columbus, Detroit, Dubuque and Phoenix and plans to open six additional new sales locations in 1975. By the end of 1974 the volume of life insurance insured by GALIC had exceeded \$1 billion — only 11 percent of all insurance companies presently exceed this billion dollar milestone.

Founders Life Insurance Company was acquired as a subsidiary of GALIC in late 1974. This company, with an established name on the West Coast, opens up a variety of new markets previously untapped by the Gambles Insurance Group. The Founders acquisition will nearly double the life insurance in force of the Gambles Insurance Group.

Gambles Insurance Company (GIC), in late 1974, introduced its homeowners and auto insurance product to employees, customers and franchised dealers of Gambles in selected states. The number of states in which this service is offered will be expanded materially in 1975.



The Gamble Insurance Group offered a full line of insurance coverages to Gamble dealers at their January Market.

Gambles C&M Leasing Company, now an 80 percent owned subsidiary of the company, continued its aggressive expansion. The number of automobile and truck units under lease increased by approximately 30 percent in 1974. This growth brought C&M to 10th in rank among the nation's major automotive leasing companies. Its clients operate leased vehicles in all 50 states, Puerto Rico and Canada.

Gambles International Leasing Corporation more than doubled its contracts and revenues during the fiscal year. Equipment under lease includes airplanes, computers, manufacturing equipment, office equipment, medical equipment and security systems.

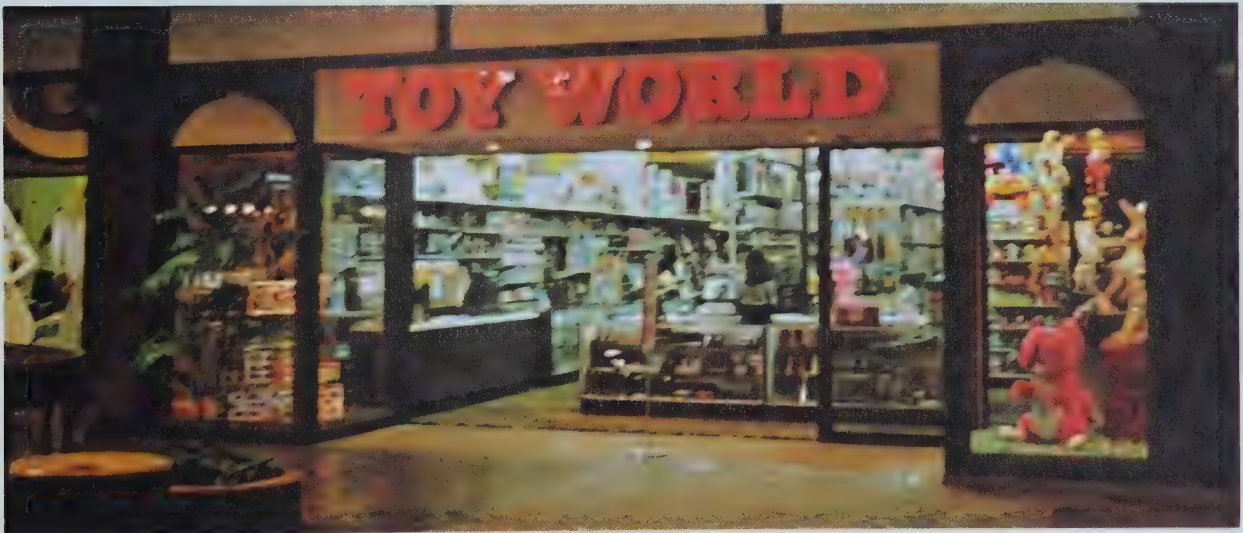
At year end, resources, deposits and capital accounts, as well as the number of customers served, were at the highest level in the history of Gambles Continental State Bank. Despite high interest rates, loans outstanding (excluding Federal Funds sold) increased 24 percent during the year.

FINANCIAL HIGHLIGHTS

Throughout the year, all businesses were faced with abnormally high, short-term interest costs. We were no exception. Increased investment in inventories and receivables, together with higher rates in the short-term money market, raised our interest costs by approximately \$8 million.

Gamble-Skogmo, Inc. and its finance subsidiary, Gambles Credit Corporation, continued to place strong emphasis on efficient cash management. We used every opportunity to reduce the amount of cash float in the system and to hold inventories at a workable minimum. The commercial paper market was the primary source of short-term

A major feature of the West Coast-based Rasco Stores Division was the continued development of its Toy World retail store group. The division opened seven Toy World units during the year, this bringing the total number to 36. Six additional outlets are planned for the current year. Seven Rasco variety stores were also opened during the past year.



financing. During the year both the parent company and Gambles Credit Corporation were awarded a rating of Fitch-1, which is the highest rating given to issuers of commercial paper by Fitch Investors Service, Inc.

The company's capital base was strengthened further during 1974 with the issuance and sale of an additional \$30,000,000 of subordinated income notes. This income note is an efficient contingent interest debt instrument, the proceeds of which serve as near equity capital and substitute for preferred stock in the company's capitalization.

As of year end, the company had \$163,000,000 of income notes outstanding in the hands of 23,285 holders. Since year end, an additional \$6,000,000 in income notes have been sold. Almost one half of the amount now outstanding has no sinking fund requirements and a maturity beyond

the end of the century. The pre-tax weighted average rate on income notes outstanding at year end was 8.9 percent.

In 1974, stockholders' equity increased by \$9,000,000 to a total of \$225,000,000, an all-time high. Total capital funds, comprising stockholders' equity and subordinated income notes, increased during the year by \$33,000,000 to a record \$388,000,000, which is equal to 60 percent of total assets.

At year end, the company's operating balance sheet showed \$121,000,000 in cash which amounted to 53 percent of total current liabilities. The availability of this cash enables the company to advance funds during the year to its leasing and finance subsidiaries, thereby lowering their borrowing costs during periods of tight money. During the year the company completed its purchase of 400,000 additional shares of common stock held in treasury.



The Palace Department Store at Monroe, Louisiana, is one of twenty-five department stores in the Chicago-based Gamble Department Stores subsidiary.

During the year Gambles Insurance Group acquired Founders Life Insurance Company, Inc. for income bonds and cash. The company also acquired an additional 15 percent of Gambles C&M Leasing Company for income bonds and cash to increase its holdings to 80 percent in that subsidiary.

In 1974, capital expenditures amounted to \$17,270,000. This represented investments in new stores, major warehouse expansions and the renovation of 29 existing units.

During 1975, planned capital expenditures will amount to approximately \$18,000,000.

During the year additional long-term financing was obtained for Retailers Growth Fund, Inc., a small business investment corporation which makes loans for new facilities and the remodeling of existing ones.

MANAGEMENT

CORPORATE OFFICERS AND DIRECTORS

In April, Donald A. Metke was elected Vice President for Retail Merchandising. He brings to Gambles substantial experience with two major national retailing companies.

In August, James F. Tracy joined us as Senior Vice President in charge of Buying. All of Mr. Tracy's previous experience had been with a very large national retailer. Among other responsibilities, he will undertake to strengthen coordinated buying efforts designed to maximize the company's influence with major resources. In September, Mr. Tracy was elected a Director and in February, he was named to the Executive Committee of the Board.

In taking charge of our buying activities, Mr. Tracy replaced Arthur G. Johnson, who retired from these responsibilities after 38 years of



The 50th Anniversary Committee consists of: sitting (l. to r.): Frank T. Matthews, Vice President for Store Design, Construction and Display; Arthur G. Johnson, Executive Vice President and Committee Chairman; James F. Tracy, Senior Vice President for Buying. Standing left to right are: Robert N. Benham, Assistant Public Relations Director; Donald A. Metke, Vice President for Retail Merchandising; Roy W. Johnson, Vice President for Buying; James L. Reine, Administrative Assistant to the Vice President for Buying; Larry Kanters, Vice President; Nicholas C. Kane, Director of Advertising and Sales Promotion.

outstanding service to Gambles. Mr. Johnson continues to serve as a member of the Board and the Executive Committee, and is assisting the Chairman of the Board in several special assignments.

Wheelock Whitney was elected a Director at the December Board Meeting.

Mr. Whitney was with Dain, Kalman & Quail, Incorporated for a period of 15 years, the last six as Chief Executive Officer of the Minneapolis-based stock brokerage firm. He left Dain, Kalman in 1972 to pursue personal interests in the fields of chemical dependency, education and other humanistic and community concerns.

In 1973, Mr. Whitney joined the University of Minnesota faculty as an instructor of a management course in the School of Business Administration.

Three Assistant Vice Presidents were named during the year. They are: Stanley J. Edwards, a long-time Gambles executive who is in charge of inventory control, Richard L. Parry, Corporate Economist, and Paul P. Senio, Corporate Tax Manager.

DIVISION AND SUBSIDIARY HEADS

Melvin Roth was elected Chairman of the Board and President of Red Owl Stores, Inc. Mr. Roth had achieved an outstanding record in building his own supermarket and mass merchandising business, which he and his family sold to a major national chain organization.

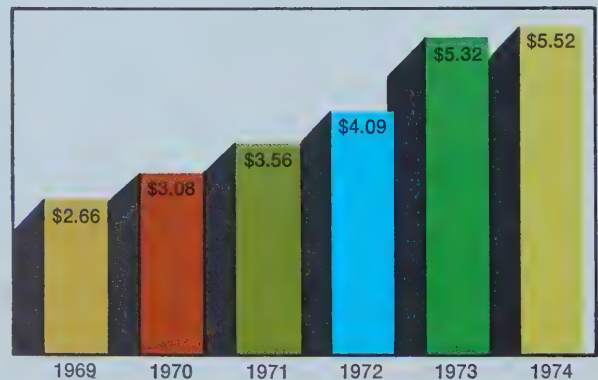
Glenn R. Anderson was named President of Snyder's Drug Stores, a Red Owl subsidiary. Mr. Anderson had been in charge of Snyder's operations for two years, guiding the company to substantially improved results. He continues to serve as Executive Vice President of Red Owl.

Following the acquisition of Founders Life Insurance Company, E. Charles Williamson was named as its President. He continues to serve as Executive Vice President of Gamble Alden Life Insurance Company.

Thomas D. Najour was named Executive Vice President and General Manager of Gambles House of Fabrics, coming to this role from the presidency of a chain of fabric stores in the eastern states.



EARNINGS PER SHARE



John H. Stubstad, Manager of the Corporate Data Center, monitors programmer Debra Garry at the computer console. The company has recently acquired a new IBM 371/158 system which is 300 percent faster than the previous equipment. The computer is linked to computer installations at five regional distribution centers in Nebraska, Michigan, Illinois, Ohio and Colorado.



Summary of Operating Results by Group

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

(Amounts in millions)

	1974		1973		1972		1971		1970	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Net sales and operating revenues:										
General merchandising ..	\$ 686.8	46.2%	\$ 643.0	46.1%	\$ 618.5	45.9%	\$ 613.5	46.5%	\$ 600.5	46.2%
Food and drugs ...	574.4	38.6	539.1	38.6	511.8	37.9	497.2	37.8	487.4	37.5
Catalog sales	226.2	15.2	212.8	15.3	203.0	15.1	188.9	14.5	193.8	14.9
Total merchandising	1,487.4	100.0	1,394.9	100.0	1,333.3	98.9	1,299.6	98.8	1,281.7	98.6
Outdoor advertising	—	—	—	—	15.5	1.1	15.5	1.2	15.0	1.4
Total	<u>\$1,487.4</u>	<u>100.0%</u>	<u>\$1,394.9</u>	<u>100.0%</u>	<u>\$1,348.8</u>	<u>100.0%</u>	<u>\$1,315.1</u>	<u>100.0%</u>	<u>\$1,296.7</u>	<u>100.0%</u>
Pre-Tax Earnings:										
General merchandising ..	\$ 29.4	60.9%	\$ 26.4	54.1%	\$ 21.1	49.6%	\$ 20.1	55.8%	\$ 19.7	63.6%
Food and drugs ...	6.3	13.1	7.1	14.6	7.3	17.1	5.2	14.5	5.5	17.7
Catalog sales	12.6	26.0	15.3	31.3	12.4	29.1	8.8	24.4	4.8	15.5
Total merchandising	48.3	100.0	48.8	100.0	40.8	95.8	34.1	94.7	30.0	96.8
Outdoor advertising	—	—	—	—	1.8	4.2	1.9	5.3	1.0	3.2
Total	<u>\$ 48.3</u>	<u>100.0%</u>	<u>\$ 48.8</u>	<u>100.0%</u>	<u>\$ 42.6</u>	<u>100.0%</u>	<u>\$ 36.0</u>	<u>100.0%</u>	<u>\$ 31.0</u>	<u>100.0%</u>

The contribution to company earnings of the service subsidiaries has been included in the earnings of the merchandising divisions they serve.

ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.
 Certified Public Accountants
 Minneapolis, Minnesota

The Board of Directors and Stockholders
 Gamble-Skogmo, Inc.:

We have examined the consolidated balance sheets of Gamble-Skogmo, Inc. and consolidated subsidiaries as of January 25, 1975 and January 26, 1974 and the related consolidated statements of earnings, stockholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Gamble-Skogmo, Inc. and consolidated subsidiaries at January 25, 1975 and January 26, 1974, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

March 14, 1975

Peat, Marwick, Mitchell & Co.



Consolidated Statement of Earnings

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

(All dollars in thousands except amounts per share)

	1974	1973
	Fifty-two weeks ended January 25, 1975	Fifty-two weeks ended January 26, 1974
Net sales	\$1,487,455	\$1,394,883
Costs and expenses:		
Cost of sales, including certain occupancy and buying costs	1,142,569	1,073,106
Operating and administrative (Note 8)	268,283	244,397
Depreciation and amortization	10,685	10,624
Interest, net of interest income of \$8,956 and \$5,002	11,482	11,325
Contribution to employees' pension and thrift sharing plans (Note 5)	7,209	7,084
Total costs and expenses	1,440,228	1,346,536
Other income — net	1,051	439
Earnings before income taxes	48,278	48,786
Income taxes (Note 9)	23,292	23,857
Net earnings	\$ 24,986	\$ 24,929
Earnings per common share:		
Primary	\$ 5.52	\$ 5.32
Fully diluted	\$ 4.71	\$ 4.48

See accompanying notes to consolidated financial statements.



Consolidated Balance Sheet

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

(All dollars in thousands)

1974

January 25, 1975

1973

January 26, 1974

ASSETS

Current assets:

Cash	\$ 21,048	\$ 25,815
Temporary cash investments	99,796	82,167
Total	120,844	107,982
Receivables (Note 1)	38,869	36,850
Inventories	253,550	230,396
Prepaid expenses	14,253	9,588
Total current assets	427,516	384,816
Investments, principally unconsolidated subsidiaries	88,224	85,677
Property and equipment — net (Note 2)	93,379	91,808
Excess of cost over equity in companies acquired	27,116	26,229
Deferred charges and other assets	12,976	10,678
	<u>\$649,211</u>	<u>\$599,208</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Commercial paper	\$ 13,309	\$ —
Current instalments of long-term debt	4,029	4,046
Accounts payable and accrued liabilities	151,153	145,645
Current income taxes	10,901	13,166
Deferred income taxes applicable to instalment sales	48,167	44,494
Total current liabilities	227,559	207,351
Deferred credits, principally deferred income taxes	7,100	6,476
Long-term debt (Note 3) excluding subordinated income notes shown below as capital accounts:		
Operating companies	8,966	11,048
Real estate companies	17,876	19,537
Total	26,842	30,585
Capital accounts:		
Subordinated income notes (Note 4)	163,095	139,146
Stockholders' equity (Notes 6 and 7)	224,615	215,650
Contingent liabilities and commitments (Notes 11 and 12)	<u>\$649,211</u>	<u>\$599,208</u>

See accompanying notes to consolidated financial statements.



Consolidated Statement of Changes in Financial Position

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

(All dollars in thousands)

1974

Fifty-two weeks ended
January 25, 1975

1973

Fifty-two weeks ended
January 26, 1974

SOURCE OF FUNDS

Net earnings	\$24,986	\$24,929
Net earnings of unconsolidated subsidiaries included above	(9,601)	(7,443)
Depreciation and amortization	10,685	10,624
Cash dividends from unconsolidated subsidiaries	4,999	1,751
Funds derived from operations	31,069	29,861
Issuance of subordinated income notes	30,377	27,910
Carrying value of property and equipment disposals	2,481	1,998
Issuance of common stock	2,733	2,838
Decrease in investments	2,055	7,696
Increase in deferred credits	624	663
Other	—	1,836
	<u>\$69,339</u>	<u>\$72,802</u>

USE OF FUNDS

Cash dividends	\$ 7,681	\$ 7,871
Reduction of subordinated income notes	6,428	3,367
Reduction of long-term debt	3,743	3,806
Additions to property and equipment	14,737	8,819
Conversion of preferred stock	2,323	2,047
Acquisition of treasury stock	8,750	2,597
Settlement of GOA lawsuit	—	11,370
Other	3,185	—
Change in working capital	22,492	32,925
	<u>\$69,339</u>	<u>\$72,802</u>

CHANGE IN WORKING CAPITAL BY COMPONENT:

Cash and temporary cash investments	\$12,862	\$39,940
Receivables	2,019	(4,340)
Inventories	23,154	17,526
Prepaid expenses	4,665	(207)
Commercial paper and current instalments of long-term debt	(13,292)	1,549
Accounts payable and accrued liabilities	(5,508)	(24,675)
Current and deferred income taxes	(1,408)	3,132
Increase in working capital	<u>\$22,492</u>	<u>\$32,925</u>

See accompanying notes to consolidated financial statements.



Consolidated Statement of Stockholders' Equity

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

(All dollars in thousands)

	1974		1973	
	Fifty-two weeks ended January 25, 1975		Fifty-two weeks ended January 26, 1974	
	SHARES	AMOUNT	SHARES	AMOUNT
Preferred stock — voting, cumulative and convertible (Note 6):				
\$40 par value; \$1.75 per share dividend; authorized 600,000 shares:				
Beginning of year	321,869	\$ 12,875	364,331	\$ 14,573
Conversion to common shares	(4,800)	(192)	(42,462)	(1,698)
End of year (aggregate preference upon involuntary liquidation \$13,000 and \$13,277)	<u>317,069</u>	<u>12,683</u>	<u>321,869</u>	<u>12,875</u>
\$5 par value; \$1.60 per share dividend; authorized 1,400,000 shares:				
Beginning of year	945,148	4,726	1,014,925	5,075
Conversion to common shares	(426,084)	(2,131)	(69,777)	(349)
End of year (aggregate preference upon involuntary liquidation \$18,167 and \$33,080)	<u>519,064</u>	<u>2,595</u>	<u>945,148</u>	<u>4,726</u>
Common stock, including additional paid-in capital (Note 6):				
\$5 par value; authorized 10,000,000 shares:				
Beginning of year	5,086,225	62,191	4,952,174	63,203
Acquisition of minor pooled company not restated	—	—	—	(3,565)
Conversion of preferred shares	429,978	2,323	113,130	2,047
Exercise of stock options	17,620	410	20,921	506
End of year	<u>5,533,823</u>	<u>64,924</u>	<u>5,086,225</u>	<u>62,191</u>
Retained earnings (Note 7):				
Beginning of year		165,618		159,498
Net income		24,986		24,929
Retained earnings of minor pooled company not restated		—		432
Cash dividends:				
Preferred		(1,810)		(2,186)
Common		(5,871)		(5,685)
Settlement of GOA lawsuit (Note 10)		—		(11,370)
End of year		<u>182,923</u>		<u>165,618</u>
Common stock reacquired and held in treasury, at cost:				
Beginning of year	(835,329)	(29,760)	(854,416)	(31,013)
Purchased at cost	(313,026)	(8,750)	(86,974)	(2,597)
Issued for acquisition of Woman's World — minor pooled company not restated	—	—	106,061	3,850
End of year	<u>(1,148,355)</u>	<u>(38,510)</u>	<u>(835,329)</u>	<u>(29,760)</u>
Total stockholders' equity		<u>\$224,615</u>		<u>\$215,650</u>

See accompanying notes to consolidated financial statements.



Notes to Consolidated Financial Statements

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

Summary of Accounting Policies

The company's accounting policies conform with generally accepted accounting principles and have been applied on a consistent basis. Significant policies are outlined below.

DEFINITION OF FISCAL YEAR. The company's fiscal year ends on the last Saturday in January. Fiscal 1974 ended on January 25, 1975 and fiscal 1973 on January 26, 1974. Each year is comprised of 52 weeks.

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include all accounts except those of service subsidiaries. Condensed financial information for finance and insurance subsidiaries are presented on pages 24 and 25 of this annual report. All other unconsolidated service subsidiaries are in the aggregate not significant. Investments in unconsolidated subsidiaries are carried at underlying equity values.

Pre-tax earnings of unconsolidated service subsidiaries, reflected in the Consolidated Statement of Earnings as a reduction of operating and administrative expense, are \$17,503,000 for 1974 and \$13,989,000 for 1973.

FOREIGN EXCHANGE TRANSACTIONS. Net current assets of Canadian subsidiaries are translated to U. S. dollar equivalents at period ending exchange rates and other assets and long-term debt at rates prevailing on dates of acquisition. Unrealized losses on foreign exchange in 1974 and 1973 are insignificant, as are cumulative unrealized gains which are deferred.

INVENTORIES. Merchandise inventories are comprised principally of general merchandise and food and are stated at lower of cost (first-in, first-out) or realizable market.

DEPRECIATION. Property and equipment is depreciated over the estimated service lives or, in the case of leasehold improvements, over the period of leases if shorter. Depreciation and amortization is provided generally on the straight-line method for financial

reporting and on accelerated methods for income taxes.

EXCESS COST. Substantially all excess cost arose from business acquisitions prior to 1970 and will be carried at cost until evidence of impairment of value. Excess cost arising from acquisitions since 1970 is being amortized.

INCOME TAXES. For financial reporting, deferred income taxes are provided for expenses and income recognized in different periods for income tax purposes.

Deferred income taxes from timing differences on instalment sales are included in the financial statements as current liabilities. All other deferred income taxes are included in deferred credits.

It is the policy of the company to accrue taxes on the earnings of the Canadian subsidiary companies which are intended to be remitted to the parent company in the near future. No provision for income taxes has been made on approximately \$52,400,000 of undistributed earnings of the Canadian companies that have been indefinitely reinvested in the subsidiaries' business.

Investment tax credits are used to reduce income taxes in the year the property is acquired (\$856,000 in 1974 and \$490,000 in 1973).

EARNINGS PER SHARE. Primary earnings per common share have been computed by dividing net earnings after provision for preferred dividends by the weighted average number of common shares and common equivalent shares (dilutive stock options and warrants) outstanding during the year. The average number of such shares outstanding was 4,201,000 in 1974 and 4,206,000 in 1973.

Fully diluted earnings per share is computed assuming conversion of all convertible preferred stock (with appropriate elimination of preferred dividend requirements) and issuance of all shares reserved for stock options and warrants deemed to be common stock equivalents. The average number of such shares outstanding was 5,300,000 in 1974 and 5,562,000 in 1973.



Notes to Consolidated Financial Statements (Continued)

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

(1) Receivables

	(thousands)	
	1974	1973
Equity in instalment accounts sold	\$33,241	\$31,803
Other trade receivables	11,733	12,848
Dealer accounts	4,088	2,867
Miscellaneous, principally affiliates	10,478	8,191
Total accounts receivable	59,540	55,709
Less: Allowance for doubtful accounts	15,568	13,893
Deferred finance charges	5,103	4,966
Net receivables	\$38,869	\$36,850

Customer instalment accounts, less a portion withheld, are sold to finance subsidiaries. Operating companies retain finance charges and pay the finance subsidiaries an amount designed to equal 1½ times the finance companies fixed charges. The allowance for doubtful accounts provides for the exposure on all receivables listed above and those sold to finance subsidiaries.

(2) Property and Equipment (at cost)

	(thousands)	
	1974	1973
Land	\$ 10,073	\$ 9,970
Buildings and equipment	149,670	146,564
	159,743	156,534
Less allowance for depreciation	80,070	77,351
	79,673	79,183
Leasehold improvements less amortization	13,706	12,625
	\$ 93,379	\$ 91,808

(3) Long-term Debt

The long-term debt of the operating companies is principally unsecured and matures through 2002, paying interest at a weighted average rate of 6.3% (range 4½% - 9¾%). The long-term debt of the real estate companies is mortgage notes maturing through 1999, paying interest at a weighted average rate of 6.2% (range 4½% - 8½%).

Annual sinking fund and principal payments on long-term debt and subordinated income notes (Note 4) during the next five years are as follows: 1975 - \$4,029,000; 1976 - \$3,000,000; 1977 - \$24,179,000; 1978 - \$3,773,000; 1979 - \$3,799,000.

(4) Subordinated Income Notes

Subordinated income notes mature from 1975 to 2004 and pay interest at a weighted average rate of 8.9% (range 6½% to 10%). Principal payments aggregating \$73,464,000 mature subsequent to the year 2001.

The provisions of the note indentures require that interest be paid currently if earned. If not earned, interest must be paid upon maturity of the notes to the extent not previously paid.

In financial statements filed with the Securities and Exchange Commission, the company includes subordinated income notes under the caption "long-term debt" and does not include the caption "capital accounts."

(5) Pension and Thrift Sharing Plans

Contributions to employees' pension and thrift sharing plans include payments for various retirement plans. It is the company's policy to fund normal cost accrued and interest on prior service costs. As of the date of the latest actuarial determination (December 31, 1973) the market value of the pension plan assets exceeded the total vested benefits of the company's pension plans. The market value of the pension plan assets declined during 1974 primarily because of prevailing stock market conditions. As a result of this market value decline, the total vested benefits exceeded the market value of the pension plan assets at December 31, 1974. The company does not expect a material increase in pension plan expense as a result of such market value decline. The Gamble-Skogmo, Inc. and Subsidiaries Pension Plan is administered by a wholly-owned life insurance subsidiary. The company does not expect the Employee Retirement Income Security Act of 1974 to have a material effect on the company's pension plan.

(6) Capital Stock

Each share of \$1.75 preferred stock is convertible into 9,270/10,000ths of a share of common stock until October 31, 1978, and 8,240/10,000ths of a share to October 31, 1983, on which date conversion rights expire. The stock is redeemable at the option of the company and in the event of involuntary liquidation at \$41.00 per share plus accrued and unpaid dividends with annual reductions of \$.25 per share to \$40.00 per share on and after November 1, 1978. Sinking fund requirements, equal to 5% per year of shares issued, commence in 1983.

Each share of \$1.60 preferred stock is convertible into 9/10ths of a common share to November 30, 1979, and 8/10ths of a share to November 30, 1984, on which date conversion rights expire. The stock is redeemable at the option of the company and in the event of involuntary liquidation at \$35.00 per share plus accrued and



Notes to Consolidated Financial Statements (Continued)

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

(6) Capital Stock (Cont.)

unpaid dividends. Sinking fund requirements, equal to 5% of shares issued, commence in 1984.

Common shares were reserved as follows:

	1974	1973
Conversion of preferred stock	761,081	1,243,521
Employee stock options	407,391	446,063
Common stock purchase warrants . .	272,227	272,227
	<u>1,440,699</u>	<u>1,961,811</u>

Under the company's option plans for executives and key employees, options are granted at market value and are exercisable from one to five years after date of grant.

Shares under option were as follows:

	1974	1973
Outstanding beginning of year . . .	228,962	258,634
Granted	5,500	48,860
Exercised	(17,620)	(20,921)
Expired	(89,952)	(57,611)
Outstanding end of year	<u>126,890</u>	<u>228,962</u>
Shares exercisable	<u>31,206</u>	<u>49,041</u>
Aggregate option price for shares outstanding	<u>\$3,497,000</u>	<u>\$6,145,000</u>

Warrants to purchase common stock issued in connection with the sale of subordinated income notes are exercisable at prices ranging from \$25.50 to \$40.00 per share and expire from August 1975 to January 1984.

(7) Retained Earnings

Retained earnings of an unconsolidated service subsidiary are restricted as to payment of dividends by terms of long-term debt indentures and agreements in the amount of \$24,902,000.

(8) Consumer Credit Operations

The results of the consumer credit operations are as follows:

	(thousands)	
	1974	1973
Finance charge income	\$54,415	\$53,239
Operating expense (including credit sales expense, collection expense, and provision for doubtful accounts) . .	30,735	27,416
Interest expense	27,175	18,685
Income taxes	(1,747)	3,569
Total expense	<u>56,163</u>	<u>49,670</u>
Net consumer credit operations earnings .	<u>\$ (1,748)</u>	<u>\$ 3,569</u>

Finance charge income and operating expense are included in operating and administrative expense in the accompanying consolidated statement of earnings. Interest expense is calculated based upon the average cost of borrowings of the finance subsidiaries of 10.19% in 1974 and 7.34% in 1973 applied to the average balance of customer receivables reduced by deferred income taxes. An effective rate of 50% is assumed in calculating income taxes.

(9) Income Tax Expense

Income tax expense is made up of the following components:

	(thousands)	
	1974	1973
Current tax expense:		
Federal	\$ 8,134	\$15,092
Canadian	8,831	6,758
State and local	1,056	2,508
Deferred tax expense:		
Federal and State	4,303	(1,228)
Canadian	968	727
	<u>\$23,292</u>	<u>\$23,857</u>

Deferred taxes arose from timing differences related to the following:

	(thousands)	
	1974	1973
Instalment sales	\$4,036	\$(1,283)
Depreciation	560	135
Undistributed foreign earnings	572	475
Pension accrual	(850)	—
Other	953	172
	<u>\$5,271</u>	<u>\$ (501)</u>

A reconciliation of the 1974 and 1973 expected U.S. Federal income tax rate of 48% to the actual effective rate is as follows:

	1974	1973
Computed "expected" tax expense	48.0%	48.0%
State income tax net of Federal tax benefit	1.7	2.6
Canadian taxes in excess of U.S. Federal tax rate	2.9	1.8
Other	(4.4)	(3.5)
	<u>48.2%</u>	<u>48.9%</u>

Notes to Consolidated Financial Statements (Continued)

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

(10) Settlement of GOA Lawsuit

During 1973, a final judgment was entered against the company in connection with the previously reported litigation arising out of the 1963 merger of General Outdoor Advertising Co., Inc. into the company. A portion of the judgment constituted principal and was accounted for as though additional preferred stock had been issued at the time of the merger and had subsequently been redeemed for cash. The interest portion was treated as a payment in lieu of dividends on the additional preferred stock assumed to have been issued. As a result, payment of the judgment did not affect earnings before preferred dividends and the effect on 1973 earnings per share was not material. The entire judgment of \$10,744,000, which included interest of \$3,998,000, together with costs of \$3,798,000, was charged to retained earnings, net of related tax benefits of \$3,172,000.

(11) Contingent Liabilities and Commitments

Notes sold to banks under purchase-guarantee agreements are unconditionally guaranteed by Gamble-Skogmo, Inc. The uncollected balance of such notes was \$38,750,000 at January 25, 1975 and \$41,440,000 at January 26, 1974. All payments of principal and interest were on a current basis. The company has guaranteed indebtedness of unconsolidated service subsidiaries of approximately \$13,200,000 plus an additional \$20,000,000 which the subsidiary may repay from the proceeds of a future five year term loan which will not be guaranteed by the company.

(12) Lease Liability

The company conducts the major part of its operations from leased premises. For purposes of the following disclosure, the company has made a distinction between "financing" lease arrangements and other lease arrangements. A "financing" lease is one which, during the noncancelable lease period, either (i) covers 75 percent or more of the economic life of the property or (ii) has terms which assure the lessor a full recovery of the fair market value of the property at the inception of the lease, plus a reasonable return on his investments.

Total rental expense for the last two years was as follows:

	(thousands)	
	1974	1973
Financing leases:		
Minimum rentals	\$11,660	\$11,830
Contingent rentals	852	1,028
Sublease rentals	(1,220)	(1,335)
	<u>\$11,292</u>	<u>\$11,523</u>

	(thousands)	
	1974	1973
Other leases:		
Minimum rentals	\$19,052	\$17,442
Contingent rentals	1,486	1,156
Sublease rentals	(7,307)	(5,767)
	<u>13,231</u>	<u>12,831</u>
	<u>\$24,523</u>	<u>\$24,354</u>

Contingent rentals are determined on the basis of a percentage of sales in certain leased stores.

At January 25, 1975, minimum rental commitments under all noncancelable leases (reduced by sublease rentals) expire as follows:

expire as follows:

	(thousands)				
	Type of Property			Total	
Year Ended	Real	Transportation		Financing	All Other
January	Property	Equipment	Other	Leases	Leases
1976	\$15,887	\$2,307	\$2,354	\$10,991	\$ 9,557
1977	15,075	1,915	1,589	10,472	8,107
1978	14,078	2,056	1,391	10,213	7,312
1979	13,095	1,057	955	8,832	6,275
1980	12,298	765	807	8,285	5,585
1981-1985 ...	48,988	957	1,556	32,094	19,407
1986-1990 ...	24,570	—	—	15,328	9,242
1991-1995 ...	9,427	—	—	6,935	2,492
Subsequent ..	6,485	—	—	6,485	—

The above minimum rental commitments which apply principally to real property have been reduced by the following sublease rentals:

	(thousands)	
Years Ended	Financing Leases	All Other Leases
January		
1976	\$668	\$5,658
1977	583	4,943
1978	564	4,193
1979	473	3,441
1980	300	2,814
1981-1985	587	8,306
1986-1990	177	3,178
1991-1995	177	748
Subsequent	59	—

Substantially all leases included above provide that the company pay taxes, maintenance, insurance and certain other operating expenses applicable to the leased premises.

The present values of the aggregate minimum lease commitments, net of sublease rentals, relating to the "finance" leases at January 25, 1975 and January 26, 1974 were approximately \$71,000,000 and \$75,000,000 respectively, based upon interest rates ranging from 3¾% to 10%. The weighted average interest rate was 6.7% for 1974 and 6.5% for 1973.

If all of the above "finance" leases were capitalized, the lease rights amortized on a straight-line basis and interest expense accrued on the basis of the outstanding lease liability, net earnings for 1974 and 1973 would have been affected by less than 3%.



Unconsolidated Finance Subsidiaries Condensed Financial Information

GAMBLE-SKOGMO, INC.

(All dollars in thousands)

	1974	1973
	Fifty-two weeks ended January 25, 1975	Fifty-two weeks ended January 26, 1974
FINANCIAL POSITION		
Assets		
Customer instalment accounts less portion withheld pending collection	\$297,301	\$275,611
Cash and other assets	26,470	19,181
	<u>\$323,771</u>	<u>\$294,792</u>
Liabilities and Equity		
Notes payable and current instalments of long-term debt	\$197,513	\$163,440
Other liabilities	1,861	3,149
Long-term debt, excluding current instalments:		
Senior	47,627	49,999
Subordinated	12,412	13,037
Total	60,039	63,036
Equity	64,358	65,167
	<u>\$323,771</u>	<u>\$294,792</u>
OPERATIONS		
Income, principally on investment in customer instalment accounts	\$ 34,813	\$ 24,342
Expenses, principally interest	22,953	14,928
Earnings before income taxes	11,860	9,414
Provision for income taxes	5,780	4,860
Net earnings	<u>\$ 6,080</u>	<u>\$ 4,554</u>

Customer instalment accounts less portion withheld are purchased from the operating companies of Gamble-Skogmo, Inc. and Subsidiaries. The operating companies retain the customer finance charges and pay the finance companies an amount designed to equal 1½ times the finance subsidiaries' fixed charges.



Unconsolidated Insurance Subsidiaries Condensed Financial Information

GAMBLE-SKOGMO, INC.

(All dollars in thousands)

1974

Year Ended
December 31

1973

Year Ended
December 31

FINANCIAL POSITION

Assets

Cash and investments at cost:

Bonds — market value at December 31, 1974 and 1973, respectively, \$22,347 and \$20,283	\$ 24,104	\$ 20,085
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Preferred and common stocks — market value at December 31, 1974 and 1973, respectively, \$3,626 and \$5,466	5,965	6,419
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Cash and other	11,593	5,263
	<u>41,662</u>	<u>31,767</u>

Other assets	12,487	2,870
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Separate account — Gamble-Skogmo pension plan, primarily securities at market	19,193	27,368
	<u>\$ 73,342</u>	<u>\$ 62,005</u>

Liabilities and Equity

Future policy benefits	\$ 20,767	\$ 11,894
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Unpaid claims	8,202	5,078
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Other liabilities	9,211	3,541
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Separate account — Gamble-Skogmo pension plan	19,193	27,368
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Total liabilities	57,373	47,881
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Equity	15,969	14,124
	<u>\$ 73,342</u>	<u>\$ 62,005</u>

OPERATIONS

Premiums and investment income	\$ 20,857	\$ 18,638
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Benefits	11,105	9,769
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Increase in future policy benefits	1,007	2,537
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Other expenses	4,472	2,842
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Total expenses	16,584	15,148
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Earnings before income taxes	4,273	3,490
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Provision for income taxes	1,428	1,037
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Net earnings	<u>\$ 2,845</u>	<u>\$ 2,453</u>
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As of December 31, 1974 the outstanding common shares of Founders Life Insurance Company were purchased and, accordingly, the accounts of Founders are included in the above condensed summary of financial position.



Significant Comparisons

GAMBLE-SKOGMO, INC. AND CONSOLIDATED SUBSIDIARIES

(All dollars in thousands except amounts per share)

	1974	1973	1972	1971
Results for the year:				
Net sales and operating revenues	\$1,487,455	\$1,394,883	\$1,348,826	\$1,315,092
Earnings before income taxes	48,278	48,786	42,630	36,001
Federal, state and Canadian taxes	23,292	23,857	20,259	16,874
Net earnings	24,986	24,929	22,371*	19,127
Cash dividends (including preferred)	7,681	7,871	8,382	8,462
Per share of common stock:				
Earnings per share including common equivalents	5.52	5.32	4.09*	3.56
Cash dividends	1.40	1.35	1.30	1.30
Book value	44.14	39.83	39.21	34.81
Book value assuming conversion of preferred stock...	43.67	39.25	38.51	35.21
Year end position:				
Inventories	253,550	230,396	212,870	202,720
Net working capital	199,957	177,465	144,540	153,346
Current ratio	1.9 to 1	1.9 to 1	1.8 to 1	1.9 to 1
Capital accounts:				
Subordinated income notes	163,095	139,146	114,603	100,099
Stockholders' equity	224,615	215,650	211,336	221,012
Number of:				
Full time employees	18,800	19,500	21,474	22,166
Square feet of selling space	8,741,000	8,860,000	8,990,000	8,839,000
Company-owned stores	678	673	674	711
Authorized dealers	2,843	2,850	2,872	3,158
Common shares outstanding at year end**	4,385,468	4,250,896	4,097,758	4,783,110
Shareholders	14,540	14,976	15,244	16,108
Subordinated income note holders	23,285	17,529	12,540	10,017

*Excludes extraordinary item of \$5,616 (\$1.15 per share)

**Excludes shares of treasury stock in 1972, 1973 and 1974



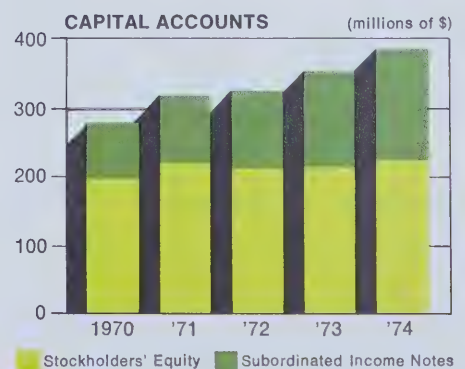
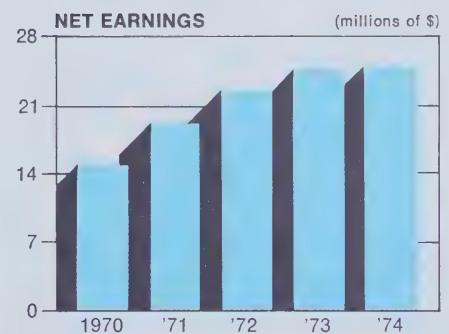
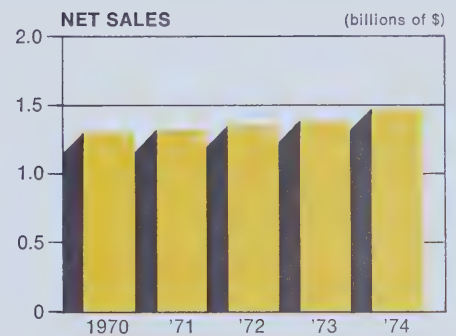
1970	1969	1968	1967	1966
296,704	\$1,258,404	\$1,144,165	\$ 910,312	\$ 701,501
30,953	27,596	27,896	24,992	27,724
15,887	14,390	14,723	12,997	14,445
15,066	13,206	13,173	11,995	13,279
8,165	8,062	7,612	7,407	7,058

3.08	2.66	2.81	2.51	2.90
1.30	1.30	1.30	1.30	1.25
31.87	29.83	28.69	26.28	24.95
33.39	32.21	31.60	30.16	29.31

214,173	198,739	212,562	187,388	171,359
174,236	192,458	174,399	162,977	209,261
2.0 to 1	2.3 to 1	2.3 to 1	2.5 to 1	2.5 to 1

88,021	71,757	69,085	37,718	6,404
193,672	186,466	175,753	163,588	159,207

24,275	26,349	26,741	27,286	23,768
931,000	9,155,000	9,494,000	8,656,000	6,531,000
799	802	907	987	782
3,205	3,205	3,193	3,315	3,074
999,620	3,839,951	3,602,430	3,454,885	3,454,460
17,345	18,101	17,299	17,059	16,476
7,566	4,277	3,549	3,789	2,551





Five Year Summary of Operations

(All dollars in thousands except amounts per share)

The following summary of operations presents in condensed form the consolidated results of operations of the company for the five years ended January 25, 1975, and should be

read in conjunction with the financial statements and notes thereto appearing elsewhere in this annual report.

	1974	1973	1972	1971	1970
Net sales and operating revenues	<u>\$1,487,455</u>	<u>\$1,394,883</u>	<u>\$1,348,826</u>	<u>\$1,315,092</u>	<u>\$1,296,704</u>
Costs and expenses:					
Cost of sales	1,142,569	1,073,106	1,037,821	1,012,438	989,715
Operating and administrative	275,492	251,481	247,689	241,849	245,684
Interest — net	11,482	11,325	10,875	15,161	19,639
Other costs and expenses	9,634	10,185	9,811	9,643	10,713
Earnings before income taxes	<u>48,278</u>	<u>48,786</u>	<u>42,630</u>	<u>36,001</u>	<u>30,953</u>
Income taxes	<u>23,292</u>	<u>23,857</u>	<u>20,259</u>	<u>16,874</u>	<u>15,887</u>
Net earnings before extraordinary item	<u>24,986</u>	<u>24,929</u>	<u>22,371</u>	<u>19,127</u>	<u>15,066</u>
Gain on sale of Claude Neon Advertising, Ltd. stock less applicable income taxes of \$500	—	—	5,616	—	—
Net earnings	<u>24,986</u>	<u>24,929</u>	<u>27,987</u>	<u>19,127</u>	<u>15,066</u>
Dividend requirements on preferred stock	<u>1,810</u>	<u>2,549</u>	<u>2,320</u>	<u>2,540</u>	<u>3,144</u>
Net earnings applicable to common stock	<u>\$ 23,176</u>	<u>\$ 22,380</u>	<u>\$ 25,667</u>	<u>\$ 16,587</u>	<u>\$ 11,922</u>
Average number of common and common equivalent shares outstanding					
Primary	4,201,000	4,206,000	4,900,000	4,663,000	3,868,000
Fully diluted	5,300,000	5,562,000	6,336,000	6,250,000	5,976,000
Earnings per common share					
Primary					
Earnings before extraordinary item	\$ 5.52	\$ 5.32	\$ 4.09	\$ 3.56	\$ 3.08
Extraordinary item	—	—	1.15	—	—
Net earnings	<u>\$ 5.52</u>	<u>\$ 5.32</u>	<u>\$ 5.24</u>	<u>\$ 3.56</u>	<u>\$ 3.08</u>
Fully diluted					
Earnings before extraordinary item	\$ 4.71	\$ 4.48	\$ 3.53	\$ 3.06	\$ 2.52
Extraordinary item	—	—	.89	—	—
Net earnings	<u>\$ 4.71</u>	<u>\$ 4.48</u>	<u>\$ 4.42</u>	<u>\$ 3.06</u>	<u>\$ 2.52</u>
Cash dividends paid per share of common stock.	<u>\$ 1.40</u>	<u>\$ 1.35</u>	<u>\$ 1.30</u>	<u>\$ 1.30</u>	<u>\$ 1.30</u>

Analysis of Summary of Operations

During the past five years cost of sales remained relatively constant as a percentage of sales. Income tax expense varied in proportion to pre-tax earnings.

In 1974 operating and administrative expense showed a slight increase due to lower earnings from credit operations.

At the end of 1972 the company sold Claude Neon Advertising Limited stock and realized an extraordinary gain of approximately \$5,616,000. Net earnings of Claude Neon during 1972 were approximately \$1,224,000.

During 1974 430,884 shares of preferred stock were converted into common stock. This conversion coupled with a

one time charge to the preferred dividend account in 1973 (see note 10, page 23) resulted in a decrease of \$739,000 in the dividend requirements on preferred stock. This reduction increased the net earnings available to shareholders of common stock.

Founders Life Insurance Company was acquired as a subsidiary of Gamble Alden Life Insurance Company in late 1974. Founders has assets of \$24,284,000 and will nearly double the life insurance in force of the Gambles Insurance Group. Founders did not have a material effect on 1974 earnings.



Stock Information

The company's common stock, \$1.60 preferred stock, and \$1.75 preferred stock are listed on the New York Stock Exchange. The common stock is also listed on the Midwest Stock Exchange.

Quarterly dividend payments per share and market prices per share for the various classes of stock over the past two fiscal years are shown below.

		1974			1973		
		New York Stock Exchange Market Price		Dividends Paid	New York Stock Exchange Market Price		Dividends Paid
Market prices are stated in dollars.		High	Low		High	Low	
COMMON STOCK	1st	33¾	25½	\$0.35	32¾	27⅞	\$0.32½
	2nd	31⅝	22	0.35	30⅞	22¾	0.32½
	3rd	25	18½	0.35	34⅞	26½	0.35
	4th	22½	17	0.35	35⅞	22	0.35
				\$1.40			\$1.35
\$1.60 PREFERRED STOCK	1st	33⅞	25⅝	\$0.40	33⅝	27½	\$0.40
	2nd	31	22	0.40	30¾	24	0.40
	3rd	24	18⅞	0.40	34⅞	27	0.40
	4th	21½	16⅞	0.40	34	22½	0.40
				\$1.60			\$1.60
\$1.75 PREFERRED STOCK	1st	30	24	\$0.43¾	33¼	28	\$0.43¾
	2nd	27½	20¾	0.43¾	30	24⅞	0.43¾
	3rd	23¾	18	0.43¾	35	26⅝	0.43¾
	4th	22½	18¼	0.43¾	35½	24	0.43¾
				\$1.75			\$1.75



Description of Business

Gamble-Skogmo, Inc. merchandises a wide variety of products at retail through company-operated stores and through mail order catalogs and at wholesale to independent franchised dealers. Certain subsidiaries and divisions are engaged in other activities that primarily serve this merchandising business. A general description of the company's merchandising business and related service activities is set forth below and followed by a tabulation of the number of outlets included in each merchandising group.

MERCHANDISING GROUPS

The company's merchandising business can be conveniently subdivided into three different groups. The "General Merchandising Group" consists of mass merchandising stores, department and specialty stores, and all Canadian stores. The "Food and Drug Group" consist of grocery and drug stores operated or franchised by Red Owl Stores, Inc. and one of its subsidiaries. The "Catalog Sales Group" consists of the catalog and mail order merchandising business conducted by Aldens, Inc. and its subsidiaries.

The 3,521 stores operated or supplied by the company as of January 25, 1975, are located principally in towns and cities having populations ranging from several hundred to 50,000 people.

GENERAL MERCHANDISING GROUP

The General Merchandising Group is comprised of the various individual stores included in the three broad categories described below.

MASS MERCHANDISING STORES. The company operates mass merchandising stores under the names Tempo and Buckeye Mart. These stores are located primarily in medium-sized cities and are merchandised to appeal to the value conscious customer.

DEPARTMENT AND SPECIALTY STORES. This category includes conventional department stores operating under a variety of names in

medium-sized cities, and the specialty stores described below.

The Gamble stores are primarily hardlines stores located in smaller towns. They are service-oriented and carry a substantial amount of private label merchandise supplied by the company.

The Gambles House of Fabrics Division is comprised of stores handling fabrics, accessories and sewing notions, operating principally under the name House of Fabrics. The J. M. McDonald stores specialize in the sale of nationally advertised brands of men's, women's and children's apparel, accessories and shoes, home furnishings, fabrics, gifts and related items.

The Mode O'Day Division is comprised of Mode O'Day stores and a few Double Up stores. Mode O'Day stores handle low-priced lines of women's apparel and accessories, and Double Up stores handle essentially the same kinds of merchandise but are oriented toward a younger age group. The Rasco Division is comprised of variety stores operating under the names Rasco and Rasco-Tempo which are similar to the mass merchandising stores described above, of toy stores operating under the name Toy World, and of fabric stores operating under the name Embassy Fabrics.

The Skogmo stores are softlines stores located in smaller towns. Woman's World stores are specialty, large-size women's apparel shops located principally in large regional shopping centers in the suburbs of major cities.

CANADIAN STORES. The Macleods Division of Macleod Stedman Limited, a subsidiary of Gambles Canada Limited, is comprised principally of stores in smaller towns handling primarily hardlines, but also includes three mass merchandising stores operated under the name Gambles in Winnipeg. The Stedmans Division of the same subsidiary is comprised of variety and softlines stores. Wood Alexander, a subsidiary of Macleod Stedman Limited, operates a wholesale hardware operation in Ontario.



Description of Business (Continued)

FOOD AND DRUG GROUP

Red Owl Stores, Inc. and its drug store subsidiary operate and supply Red Owl food stores and Snyder's drug stores. The food stores include 20 Red Owl Family Centers that offer both food and drug merchandise as well as selected hardline and softline products.

CATALOG SALES GROUP

Aldens, Inc. operates a catalog sales business through direct catalog distribution by mail. An Aldens subsidiary makes its own merchandise offers and also syndicates small catalogs, bill stuffers, and other mailings for customers such as oil companies, credit card companies, magazine publishers and banks.

SERVICE ACTIVITIES

The divisions and subsidiaries of the company that are not directly engaged in merchandising activities offer a wide variety of services that primarily serve and support the company's merchandising activities. The following is a brief description of such services:

FINANCING

Gambles Credit Corporation purchases receivables resulting from retail and wholesale credit sales by the company and its subsidiaries in the United

States, and Gambles Canada Acceptance Limited purchases receivables resulting from similar credit sales by the company's Canadian subsidiaries.

INSURANCE

The company has an insurance group engaged in writing insurance and in related activities, principally through Gamble Alden Life Insurance Company and its subsidiaries, including Founders Life Insurance Company.

OTHER SERVICE ACTIVITIES

Gamble Development Company, a real estate subsidiary, manages or owns and operates five shopping centers, which range in size from approximately 34,000 square feet to 229,000 square feet. Gambles Continental State Bank, a subsidiary, is a relatively small bank doing a general banking business in downtown St. Paul, Minnesota. Gambles C & M Leasing Company, an 80 percent owned subsidiary, owns and leases vehicles (primarily automobiles and trucks), including most of the vehicles used by the company. Gambles International Leasing Corporation leases equipment to commercial and industrial users, and Gamble Rents, Inc. leases home furnishing and appliances to consumers.

Tabulation of Company-Owned and Franchised Outlets as of January 25, 1975

[illegible]

Offices, Divisions & Subsidiaries

Except as listed, all operations are located at the company's corporate headquarters: 5100 Gamble Drive, Minneapolis, Minnesota 55416 (Phone 612/374-6123)

MERCHANDISING OPERATIONS

ALDENS, INC.
Chicago, Illinois

GAMBLE DEPARTMENT STORES, INC.
Chicago, Illinois

GAMBLE STORES DIVISION

GAMBLES CANADA LIMITED
Winnipeg, Manitoba, Canada

GAMBLES CORPORATE BUYING DIVISION
New York, New York

GAMBLES HOUSE OF FABRICS DIVISION
Lenexa, Kansas

GAMBLES IMPORT CORPORATION
Burbank, California

J. M. McDONALD CO. DIVISION
Hastings, Nebraska

MACLEODS DIVISION
Winnipeg, Manitoba, Canada

MODE O'DAY DIVISION
Burbank, California

SKOGMO STORES DIVISION

RASCO STORES DIVISION
Burbank, California

RED OWL STORES, INC.
Hopkins, Minnesota

SNYDER'S DRUG STORES, INC.
Hopkins, Minnesota

STEDMAN'S DIVISION
Toronto, Ontario, Canada

TEMPO-BUCKEYE STORES DIVISION

WOMAN'S WORLD FINANCIAL CORPORATION
LaMesa, California

FINANCIAL SERVICE SUBSIDIARIES

FOUNDERS LIFE INSURANCE COMPANY
Los Angeles (Century City), California

GAMBLE ALDEN AGENCY, INC.

GAMBLE ALDEN LIFE INSURANCE COMPANY

GAMBLE DEVELOPMENT COMPANY

GAMBLE RENTS, INC.

GAMBLES C & M LEASING COMPANY

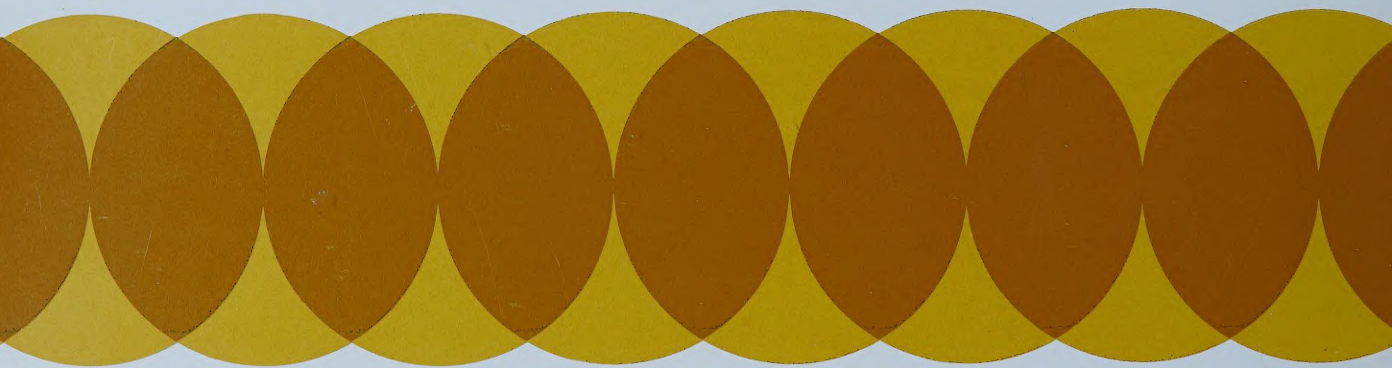
GAMBLES CANADA ACCEPTANCE LIMITED
Winnipeg, Manitoba, Canada

GAMBLES CONTINENTAL STATE BANK
St. Paul, Minnesota

GAMBLES CREDIT CORPORATION
Reno, Nevada

GAMBLES DATAMATION CENTER
Burbank, California

GAMBLES INTERNATIONAL LEASING CORPORATION



GAMBLE-SKOGMO, INC.  5100 GAMBLE DRIVE, MINNEAPOLIS, MINNESOTA 55416